Testimony of Jerry Paul
Principal Deputy Administrator for
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Mr. Chairman and members of the Committee, thank you for inviting me to address the current state of security and safety operations at the Los Alamos National Laboratory (LANL). Over the past ten months we have seen an extraordinary effort by NNSA officials, LANL managers and the employees themselves to address serious concerns about safety and security practices at the laboratory. Today I intend to describe the role that the National Nuclear Security Administration played during the stand down and resumption process at the laboratory and offer a status report on corrective action plans at the laboratory.

History

On July 16, 2004, the laboratory director, Dr. G. Peter Nanos, suspended all operations in response to two serious events: the discovery that two computer disks thought to contain classified information could not be located and were assumed to be lost, and an industrial accident in which a summer intern was injured by a laser. (Ultimately, after exhaustive investigations by the laboratory, NNSA, and the Federal Bureau of Investigation, we concluded that the computer disks never really existed, the error caused by the improper handling of identification bar codes.)

After the stand down was declared, laboratory managers planned to resume activities on a risk basis. All activities at the laboratory were placed into one of four risk categories: essential, low risk, medium risk and high-risk activities. Some activities categorized as essential, such as

systems critical to safety at operational facilities, were allowed to continue. For all other activities the laboratory developed a prescribed process to permit resumption, based on the level of risk. For the highest risk level, managers were required to conduct a self-assessment, followed by an independent readiness assessment by a team of highly qualified individuals. All laboratory staff was interviewed by their management, who discussed the need for security, safety, and environmental compliance. Many staff members had to be trained in the restart process, including self-assessments, and readiness assessments. During the assessments nearly 2500 findings and substantive observations were identified throughout the laboratory; about 400 of them had to be resolved before resumption was allowed. The rest of the findings will be addressed by implementing fully resourced plans that may take two to three years to complete. No activity or staff member was left untouched by the resumption activities. An enormous amount of work was completed before Director Nanos announced, on January 31, that the laboratory had fully resumed activities, with only a few minor exceptions. It should be noted that activities designated as essential were still subject to the resumption process. A special emphasis of the resumption involved accountable classified information contained on computer disks and other removable electronic media, known as CREM. The laboratory had amassed over 80,000 pieces of CREM over the years, which had created a significant accounting problem. During the resumption period, the laboratory reduced its inventory of CREM to around 23,000 pieces and developed a library concept to manage what remains. Twenty libraries supported by 13 additional satellite offices were created to control CREM. These new libraries are staffed and controlled by well-trained custodians whose sole responsibility is to account for the CREM inventories. All CREM users and custodians were trained in the new approach to protecting classified materials.

Today, only one program-essential activity associated with radiography and hydrodynamic testing has not completed the prescribed resumption process. This activity will soon complete its required readiness assessment.

The laboratory has created an Operations Efficiency Project that combines the institutional corrective actions being completed to "get well." Project management tools are being employed to ensure that it receives management attention and can be successfully completed. The Operations Efficiency Project is also integrated with Local Corrective Action Plans that are being implemented for unique corrective actions for each of the major sub-organizations within the laboratory.

Though the effort of resumption has been truly epochal, much remains to be done in order to bring the laboratory up to appropriate levels of performance for safety, security, and environmental compliance. Our work is not finished.

Role of NNSA during Resumption

Even before the stand down, the NNSA had held discussions with the laboratory director and his deputy about our concerns about safety practices at the laboratory. The NNSA was consulted prior to Director Nanos' decision to stand down activities. Throughout the entire period, the NNSA was actively involved in all aspects of the resumption. Initially, the NNSA enlisted additional resources from throughout the Department of Energy, notably the Office of Security and Safety Performance Assurance. The Defense Nuclear Facilities Safety Board also increased its presence, sending selected experts to assist their site representatives. In addition, the full DNFSB Board visited Los Alamos during the resumption to assess progress. The Los Alamos NNSA site office manager met regularly with the DNFSB site representatives to review their concerns. At one point, the NNSA Administrator, Linton Brooks, authorized the site office to

bring in more than 40 additional staff to oversee and assist the resumption process. Federal employees were directly involved in self-assessments, readiness assessments, training, finding reviews, and decisions regarding resuming activities. This was very much a joint activity in which the NNSA site office was making decisions and concurring in all safety and security steps along the way. Resumption of activities for medium risk and high-risk activities required my concurrence. For activities designated as essential, either safety or program-based, the federal staff participated as a veto member of teams performing these activities. Consequently, site office staff were readily available to make real time decisions regarding security and safety while in the field. Site office staff helped create the resumption plan, assisted in developing procedures, participated in training, and lent their operational and security expertise to the effort. The NNSA Administrator went to Los Alamos on July 19, shortly after the stand down was announced, to meet with senior managers at the site office and the laboratory and made subsequent visits to monitor progress. During the first few weeks after the stand down the Deputy Secretary of Energy and Administrator Brooks conducted daily conference calls with senior DOE officials and the site office manager to examine issues associated with resumption activities.

As an aside, I should note that the Secretary of Energy expanded the stand down of CREM activities to all sites within the Department of Energy complex to ensure that proper accounting and control practices were in place. These stand downs generally lasted for a few weeks.

A Broader Problem

While much of the public attention to events leading to the laboratory stand down focused on the supposedly missing classified media, we in NNSA felt that inattention to safety procedures at the laboratory presented a greater problem. Together they led us to believe that a culture of non-

compliance existed within the laboratory. A careful review of leading indicators for operations of hazardous facilities, that is, events that are precursors to low probability-high consequence accidents, suggested that laboratory performance had been declining. Some employees simply were not complying with regulations or working with regulatory agencies or bodies, including NNSA and the rest of the Department of Energy. It is this culture that we, and the laboratory's senior managers, are trying to reverse.

Impact on Programs

The laboratory is currently assessing the impact of the stand down on programs outside of NNSA that are commonly referred to as Work for Others, which includes work for the Department of Defense. Though the results have not been finalized, preliminary indications are that programs such as analytical activities that did not involve operations at hazardous facilities were not impacted greatly. During the stand down, certain NNSA programs were declared essential from a programmatic mission standpoint and allowed to continue. These programs included shipments of plutonium to France as part of the mixed oxide program; movement of special nuclear materials from Technical Area-18 to the Device Assembly Facility at the Nevada Test Site; and the hydrodynamic test and radiographic examination of modified weapon components in support of the W-76 life extension program. In each of these, crucial programmatic milestones were met despite the overall laboratory stand down.

NNSA and the laboratory employed a special process involving intensive federal oversight to conduct these programmatic essential activities. Project teams were formed with laboratory and federal site office staff so that approvals could be obtained on a real time basis. Significant compensatory measures were employed where safety and security weaknesses had been identified. Senior management, both laboratory and federal, were actively engaged.

Other programs, such as efforts to remove aboveground transuranic waste from the Los Alamos Site and ship it to the Waste Isolation Pilot Plant were delayed. The shipments to WIPP were renewed early in April 2005.

For NNSA programs in general, some interim milestones were missed; but the laboratory in many cases believes that major impacts to the programs have been avoided. Impacts to other NNSA sites were minimized by cooperative efforts between LANL and the other sites. In some cases work was shifted to other sites.

Cost Allowability

This Committee has asked about the cost of the stand down and whether these costs are an allowable expense that would be reimbursed by the government. Because of accounting procedures used by the laboratory, NNSA has been unable to determine precisely what portion of the laboratory's expenses are directly attributable to the stand down. Laboratory officials, using an accepted estimating technique, identified $119 million in labor costs attributable to the stand down. The NNSA Service Center reviewed the laboratory records to make its own determination and identified a fully burdened upper limit of $367 million for the stand down costs during the period from July 19, 2004 to January 28, 2005. The methodology used to develop this upper limit uses very conservative factors that could overstate the actual cost of the stand down.

Based on NNSA's review of the terms of the contract with the University of California, it is apparent that the vast majority of the costs are allowable costs, and thus are reimbursable expenses by the government. After consulting with the NNSA Field Chief Financial Officer (CFO) and legal counsel, the NNSA site office manager determined that the duration of the stand down was reasonable in light of the issues faced by the laboratory and the degree of federal

oversight given to the restart of activities. In fact, I believe that the duration was not only reasonable, but likely noteworthy for its efficiency.

Nevertheless, NNSA has questioned the allowability of about $14million of costs incurred during the stand down. The questioned expenses involve two blocks of money: $6.3 million in small subcontractor claims and other incremental costs and $8 million of costs for the first two days of the stand down. The site office manager has issued a formal Notice of Intent to Disallow these costs and is awaiting response from the laboratory. The laboratory has until June 6 to respond. As this Committee is aware, the Government Accountability Office is currently conducting a review of the costs attributable to the stand down. They made an initial visit to Los Alamos during the week of April 18. NNSA will continue its review of the costs of the stand down, and is not foreclosed from questioning additional amounts as new information is gathered.

Status of "Getting Well"

Now that the laboratory has fully resumed operations, one of our challenges is to ensure that the laboratory follows through on the hundreds of corrective actions that remain to be addressed. Many of the issues uncovered during the resumption process had been identified in previous reviews conducted during the past 10 years. Corrective Action Plans from these reviews were prepared but never fully implemented. NNSA has provided additional temporary (varies between 30 and 40) and permanent staff (approximately 20) to the site office to maintain an intensive campaign to verify that the laboratory is performing as it has told the NNSA it will. We have just completed an intensive review of corrective actions and compensatory measures taken to allow the laboratory to resume activities. The review found that only 8 of about 400 actions were not properly completed. Where issues arose, the laboratory took immediate action to remedy them. The federal workforce will continue to work closely with the laboratory as it

begins implementing the Operations Efficiency Project and Local Corrective Action Plans. In addition, the Office of Security and Safety Performance Assurance will perform an assessment later this summer to add to the assurance that activities are being properly performed. The NNSA site office is planning a survey this June of all security functions.

Progress is being made in the implementation of the Operations Efficiency Project and the Local Corrective Action Plans. The Operations Efficiency Project implementation is three weeks behind schedule, but important actions have been taken to delve into the way in which the laboratory manages and maintains its facilities. The delay is of concern, but the groundwork necessary for the Operations Efficiency Project to be successful must be established. Poor facility management has been a serious problem for many years. Establishing the proper roles and responsibilities for facility owners, users, and support organizations lies at the heart of many of the operational issues of the laboratory. Because fixing these prerequisites before fully implementing the Project is so important to its success, the delay becomes acceptable. The Local Corrective Action Plans of each of the sub organizations with the laboratory are going to be reviewed by Assist Teams. The review will look to standardize actions across the laboratory and to integrate these recent findings about facility management into the planning.

Current demands upon the Laboratory for completion of programs outside of NNSA being monitored by the Administrator to avoid over-stressing a somewhat fragile recovery process that will continue through the next year or two.

Prognosis

Progress to date does provide one the opportunity to be cautiously optimistic. We must all keep in mind that the nature of change necessary at the laboratory will take several years and much hard work. The NNSA remains committed to ensure that the laboratory is successful through the

vigilance of its federal oversight. Though we have been through a very challenging period that we all would have preferred to avoid, I am heartened by the creativity, dedication and hard work that so many men and women, in both the federal and contractor workforce, have shown in addressing these issues and getting Los Alamos National Laboratory back on track to fulfill its important national security mission.